

## Message Text

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15

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 /087 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1104

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION NATO BRUSSELS

USMISSION OECD PARIS

USNMR SHAPE

AMCONSUL BELFAST

AMCONSUL EDINBURGH

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DEPARTMENT PASS TO LABOR, TREASURY AND FRB

E.O. 11652: N/A

TAGS: ELAB, UK, PINT

SUBJECT: CALLAGHAN PUTS HIS WEIGHT BEHIND GOVERNMENT'S  
PAY POLICY

REF: LONDON 6225

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1. BEGIN SUMMARY: PRIME MINISTER JAMES CALLAGHAN THREW

HIS WEIGHT BEHIND THE GOVERNMENT'S 3 PERCENT WAGE LIMIT AND TAX REDUCTION PACKAGE IN HIS FIRST MAJOR SPEECH AS PRIME MINISTER. MR. CALLAGHAN, WHO WAS ADDRESSING THE ANNUAL CONFERENCE OF THE SHOP AND DISTRIBUTIVE WORKERS IN BLACKPOOL OVER THE WEEKEND EXPRESSED CONFIDENCE THAT AN AGREEMENT WOULD BE REACHED WITH THE TRADE UNIONS, BUT HE WARNED THAT THEY SHOULD NOT EXPECT ANY IMPROVEMENT IN LIVING STANDARDS DURING THE COMING YEAR. END SUMMARY.

2. MR. CALLAGHAN WAS SPEAKING ON THE EVE OF A SERIES OF IMPORTANT TRADE UNION MEETINGS THIS WEEK INCLUDING THOSE HE AND OTHER GOVERNMENT LEADERS WILL HOLD WITH TRADE UNION LEADERS ON THE SUBJECT OF THE SOCIAL CONTRACT AND THE NEXT WAGE ROUND. HE TOLD THE USDAW DELEGATES, WHO RECEIVED HIM WARMLY, THAT THE WAGE ACCORD NEEDS TO FOLLOW THE LINES OF THE HEALEY PROPOSALS (3 PERCENT WAGE LIMIT -- COUPLED WITH TAX CONCESSIONS). THE TUC HAS INDICATED THUS FAR, HOWEVER, THAT HEALEY'S 3 PERCENT IS NOT ENOUGH, AND IN FACT, LORD ALLEN, THE GENERAL SECRETARY OF USDAW, IN A LATER ADDRESS TO THE CONFERENCE SAID THAT THERE WOULD BE A BREAKDOWN IN DISCUSSIONS IF THE GOVERNMENT INSISTED ON A 3 PERCENT LIMIT.

3. THE PRIME MINISTER WARNED THE TRADE UNION ASSEMBLAGE THAT IF BRITAIN CONTINUED TO ACCEPT A RATE OF INFLATION MUCH HIGHER THAN ITS COMPETITORS "NO POWER ON EARTH COULD PREVENT THE GROWTH OF UNEMPLOYMENT TO EVEN HIGHER LEVELS. HE EXPRESSED STRONG CONFIDENCE, HOWEVER, IN THE GOVERNMENT'S ANTI-INFLATION EFFORTS THUS FAR AND ADDED THAT "WE HAVE WON AN IMPORTANT BATTLE BUT WE HAVE TO WIN THE WAR." HE URGED WORKERS TO SUPPORT THE HEALEY PROPOSALS AND EMPHASIZED THAT THE GOVERNMENT'S POLICY WOULD BE EFFECTIVE" ONLY IF IT IS GENUINELY AND FREELY ACCEPTED WITHOUT SUBTERFUGES OR ATTEMPTS TO BYPASS IT." HE DECLARED THAT THE HEALEY PROPOSALS WERE NOT, AS SOME TRADE UNIONISTS THOUGHT, SIMPLY A FIRST OFFER. HE SAID: "WHAT THE CHANCELLOR HAS PROPOSED IS THE BEST COMBINATION OF PAY INCREASES AND TAX REDUCTIONS WHICH, ADDED TOGETHER WILL ENABLE THE INFLATION RATE TO BE HALVED."

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4. DESPITE THE PRIME MINISTER'S "HOLD THE 3 PERCENT LINE" APPROACH -- WHICH IN FACT HAD BEEN RESTATED ALSO BY THE CHANCELLOR HIMSELF OVER THE WEEKEND -- THE LIKELIHOOD IS THAT THE GOVERNMENT WILL "SWEETEN" ITS PACKAGE IN SOME FORM OR ANOTHER. (PART OF THE "SWEETENING" COULD TAKE THE FORM OF A WIDER SOCIAL CONTRACT WHICH WOULD ALSO COVER PENSIONS AND OTHER ITEMS IN THE SO-CALLED "SOCIAL WAGE.") BUT ALL LEADING OBSERVERS BELIEVE THAT AN ACCORD WILL BE

REACHED AFTER THESE DISCUSSIONS HAVE RUN THEIR NORMAL COURSE AND THAT THE SPECIAL CONGRESS OF THE TUC NOW SCHEDULED FOR JUNE 16 WILL EFFECTIVELY RATIFY SUCH AN AGREEMENT.

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## Message Attributes

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